
Finance Committee

HB 1161

Brief Description: Modifying local excise tax provisions on the sale of real property.

Sponsors: Representatives B. Sullivan, Strow, Ericks and Sells.

Brief Summary of Bill

- Allows a city to impose the 0.5 percent real estate excise tax in lieu of its optional sales and use tax authority only if the county in which the city is located also does not impose its optional sales and use tax authority.

Hearing Date: 2/9/07

Staff: Mark Matteson (786-7145).

Background:

Retail sales and use taxes. The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The use tax applies if retail sales tax has not been collected. Both the state and local governments impose sales and use taxes; the state rate is 6.5 percent and the average local rate is about 2 percent statewide. Sales taxes are collected by the seller from the buyer at the time of sale. Use tax is remitted directly to the Department of Revenue. State revenues are deposited to the State General Fund.

Cities and counties both have two authorities to impose sales and use taxes for general purposes. The first authority, known as the "basic" sales and use tax, is imposed by all jurisdictions at the maximum 0.5 percent rate. The second authority is known as the "optional" sales and use tax and is also authorized at up to 0.5 percent. The optional sales tax is imposed at least in part in 277 of the 281 cities, and in 36 of the 39 counties.

The county basic sales and use tax authority applies throughout the county. However, if a city within the county imposes its basic general sales tax authority, the tax must be credited against any county tax imposed. The city then is required to share 15 percent of its receipts with the county. The effect is that the maximum rate paid by consumers is no more than 0.5 percent total in any area of the county.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The mechanics of the optional sales and use tax is the same as for the basic tax.

Real estate excise tax. The real estate excise tax (REET) is imposed on each sale of real property, which includes both the transfer of ownership and the transfer of controlling interests. Real property includes any interest in land or anything affixed to land. The state tax rate is 1.28 percent. Additional local rates are allowed. The combined state and local rate in most areas is 1.78 percent or less. The highest rate is 2.78 percent in the city of Friday Harbor.

Current law allows any city or county that chooses not to impose its optional sales tax to impose instead a local REET of 0.5 percent. This optional local REET was first enacted in 1982 to provide a mitigating revenue source to border jurisdictions (although available to all jurisdictions) desiring to keep their sales tax rates as low as possible so as to protect their retail sales base. However, because of the nature of county general sales taxes, no city could keep its sales tax rates minimized unless the county did the same. It is a possible that a consumer could face both the full 1 percent general sales tax rates and the 0.5 percent optional REET within a city that opts not to impose its optional sales tax authority and chooses to impose the optional REET instead, if the city is located in a county that imposes its optional sales tax authority.

To date, only two jurisdictions have imposed the local 0.5 percent REET in lieu of the optional sales tax: the cities of Clarkston and Asotin. Both are located in Asotin County, which does not impose the optional sales tax.

Summary of Bill:

Only those cities located within counties that do not impose the optional sales and use tax may impose the 0.5 percent REET authorized in lieu of the optional sales tax. County authority is unaffected.

Appropriation: None.

Fiscal Note: Requested on January 10, 2007.

Effective Date: The bill contains an emergency clause and takes effect immediately.